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STATE INVESTMENT COUNCIL

March 25, 2025

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MINUTES OF THE

NEW MEXICO STATE INVESTMENT COUNCIL MEETING

March 25, 2025

Santa Fe, New Mexico

1. OPENING MATTERS

a. Roll call and introduction of guests: quorum present.

A regular meeting of the New Mexico State Investment Council was called to order by the Honorable State Treasurer Laura Montoya on this date at 9:05 a.m.

Members Present:
The Honorable State Treasurer Laura Montoya, Ex officio
DFA Secretary Wayne Propst, Ex officio
Mr. Nicolas Telles, Ex officio
Mr. Allen Sánchez, Public Member
Mr. John Bingaman, Public Member
Ms. Catherine Allen, Public Member
Mr. Kurt Sommer, Public Member

Members Excused:
The Honorable Michelle Lujan Grisham, Governor
The Honorable Stephanie Garcia Richard, Land Commissioner
Ms. Kelly O'Donnell, Public Member

Staff Present:
Mr. Jon Clark, State Investment Office
Mr. Vince Smith, Chief Investment Officer
Mr. Brent Shipp, Chief Financial Officer
Mr. Charles Wollmann, Chief Communications Officer
Ms. Helen Tindel, Investment Staff & Operations Manager
Ms. Amy Chavez-Romero, Deputy General Counsel & Compliance Officer
Mr. Tom Lofton, Director, Director of Debt Market Investments
Mr. Keith Sabol, Director, Real Estate and Real Assets
Mr. Chris Cassidy, Director, Director of Private Equity and Venture Capital
Ms. Dawn Iglesias, Chief Investment Operations Officer
Mr. Nino Carpenito, Risk & Performance Officer
Mr. Chris Rodriguez, IT Network Administrator III

Guests Present:
Ms. Marcia Beard, RVK
Mr. Matthias Bauer, RVK
Mr. Richard Pugmire, Mercer
Ms. Amy Ridge, Mercer
John DeLoche, Invictus Growth
William Nettles, Invictus Growth
Zaid Abdul-Aleem, Invictus Growth
Michael Sher, Atlas Holdings

b. Approval of agenda

At about 7:13 in the meeting recording, Councilor Sommer moved to approve the agenda. Member Sánchez seconded the motion. The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, and Councilor Sánchez. Councilor Sommer abstained. There were no opposing votes. With six votes in favor, the motion was approved.

c. Approval of minutes

At about 8:06 in the meeting, Councilor Sommer moved to approve February 25, 2025, NMSIC meeting minutes. Member Sánchez seconded the motion. The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, and Councilor Sánchez. Councilor Sommer abstained. There were no opposing votes. With seven votes in favor, the motion was approved.

2. INVESTMENT ACTIVITY & PERFORMANCE, CAPITAL MARKETS UPDATE

a. SIO Briefing (Jon Clark)

At about 8:59 in the meeting recording, State Investment Officer Jon Clark provided the Council with a quick update regarding the 2025 Legislative Session. Last month, he reported that about 40 bills could have affected the SIC, including a dozen aimed at creating new funds for SIC. Legislation for three of these proposed funds have passed, but not yet been signed by the Governor, bringing the potential total to 15 funds the SIC will manage. Mr. Clark said the other bills failed due to lack of funding, structural opposition, or slow committee progress. The three that passed are:

- Senate Bill 1: Established a behavioral health program and a Behavioral Health Trust Fund with $100 million allocated.
- Senate Bill 88: This bill created a Medicaid Trust Fund that will receive excess agency reversions after reaching a specified level, aiming to match federal Medicaid funds.
- House Bill 113: Established an Animal Welfare Program Fund and Trust Fund, though only a small amount was allocated to the program fund, and none to the Trust.

SIO Clark state that with help from various agencies and advocates, the language in several bills was improved to ensure clarity in future legislation related to SIC. Some problematic bills were successfully prevented from passing, including one deemed likely unconstitutional, which would have undermined the New Mexico program. He concluded by saying that continued education is needed to clarify initiatives and ensure proper fund management responsibilities between the SIC and the treasurer. Treasurer Montoya highlighted the significance of collaborative teamwork, emphasizing that it requires cooperation within the Treasurer's office and with other agencies. She remarked that this session exemplified the idea that "Teamwork Makes the Dream Work." Furthermore, she praised the SIC for their detailed, specific, and clear analysis of all the bills, noting its exceptional quality.

b. CIO Briefing (Vince Smith)

At about 17:01 in the meeting recording, Chief Investment Officer Vince Smith informed the Council that the U.S. experienced a correction in the equity markets last month. He mentioned no immediate urgency for action in the U.S. market. He said it is encouraging that the Federal Reserve is not rushing to intervene at the first sign of trouble in the markets, which has been their tendency since the crisis in 2008-2009. A more measured approach will be beneficial for portfolio management. On a positive note, the SIC is still experiencing a high level of capital calls in private equity and across the board as our managers deploy investments. Mr. Smith said that the year is progressing as expected. They had anticipated some volatility in the markets. Economists are slightly reducing their growth estimates for the United

States, while projections for Europe are actually improving. The downward revisions for the U.S. are largely due to uncertainty surrounding tariffs, making their potential economic impact difficult to gauge. As a result, analysts are adopting a more conservative outlook, but good growth is still anticipated. The team is also mindful of heightened geopolitical risks and has anticipated some social unrest. While it is more targeted rather than widespread, it is still present. He informed the Council that the economy is heading in the expected direction, with the market responding accordingly. Mr. Smith reported that staffing is ahead of schedule. Strategist Craig Johnson will join the SIC team on March 31st. He brings a wealth of experience in finance, and Mr. Smith believes he will provide valuable contributions to the team. Member Allen asked CIO Smith for his insight and concerns about a potential recession due to the increasing number of layoffs, the possibility that tariffs could lead to inflation, and the potential effects of inflation and layoffs on the economy. Treasurer Montoya indicated the Council should be thinking about how actions of the Federal Government will impact New Mexicans, and steps that can be taken to minimize negative impacts. Mr. Smith indicated that the Council's portfolios are well diversified, and that the Council can direct investment types and goals through its policies. Discussion continued.

c. Performance Report: December 2024 (Smith, Nino Carpenito, RVK)

At about 31:59 in the meeting recording, Mr. Carpenito stated that over the past several months staff has worked on plans to add clarity and improvement to performance reporting. In the upcoming months, the Council can expect meaningful changes. Ms. Marica Beard reviewed RVK's Long-term Capital Market Assumptions and performance as of January 2025. She discussed the Land Grant Permanent Fund, noting that in the short term, it has underperformed against the benchmark. However, in the long term, starting from the fiscal year and extending out to 10 years, it has outperformed its policy benchmark on both a gross and net of fees basis. She mentioned that the Severance Tax Permanent Fund also lagged behind its benchmark in the short term but has outperformed its policy index in the long term, trailing on a net of fees basis. Ms. Beard pointed out that there are signs of progress in the outperformance of both funds. Additionally, Ms. Beard provided brief comments on asset allocation in anticipation of their presentation on Long-term Capital Market Assumptions.

3. INVESTMENT MATTERS: PORTFOLIO RECCOMENDATIONS REQUIRING A VOTE

a. Investment Committee Report (John Bingaman)

At about 43:33 in the meeting recording, Investment Committee Chair Bingaman provided a brief report and confirmed that the meeting had a quorum. Councilor Telles and advisory members John Unrich and Mary Rohman were present. After reviewing each investment matter, the committee unanimously recommended each to the council.

b. Long Term Capital Market Assumptions (Smith, RVK)

At about 45:14 in the meeting recording, Mr. Matthias Bauer of RVK presented a report to the Council regarding capital market assumptions and their impact on long-term return expectations for various funds, ensuring alignment with the efficient frontier. This annual analysis refines market expectations and has significant implications for asset growth, investment pacing, and check sizes. He noted that return expectations for public equity are declining due to rising valuations and increasing headwinds. As interest rates rise and equity values fall, fixed-income investments become more attractive, resulting in a tighter equity risk premium and a flatter capital market line that influences risk-taking. Structural changes in private asset classes, including real return and real estate, have received broad approval and benefit the overall portfolio. Mr. Bauer stated that the funds remain efficiently allocated, with no immediate need for significant corrections. Councilor Allen raised concerns about layoffs affecting New Mexicans and the potential shift to the euro for stability, highlighting geopolitical and economic risks. In response, Mr. Bauer acknowledged that volatility is likely to remain high. However, he emphasized the Council's strong position, characterized by asset growth and positive cash flows, allowing favorable investment opportunities. Treasurer Montoya pointed out shifts in return and correlation risks that differ from traditional analyses. Mr. Bauer explained that RVK aims to understand diverse outcomes, ensuring that extreme events are accounted for while recognizing the limitations of traditional risk definitions. They address this

by supplementing a mean-variance optimization framework with stochastic analysis from Monte Carlo methods. Mr. Bauer also provided a brief overview of the portfolio's impacts. Councilor Telles inquired about the Water Trust Fund's high-growth portfolio, and the discussion continued.

c. <u>VOTE: Real Return: Structure Study & Investment Policy Statement Update</u> (Keith Sabol, Mercer)

At about 1:32:32 in the meeting recording, Director Sabol provided an overview of the structure study for Real Return or Real Assets, highlighting two key priorities: eliminating the financial assets bucket and reorganizing the portfolio for improved reporting, along with a proposed change in benchmark to better reflect portfolio composition. Amy Ridge with Mercer presented the SIC's current real assets portfolio overview, noting that infrastructure makes up 57% of the net asset value (NAV) and is the highest-performing segment by internal rate of return (IRR). She indicated that the portfolio offers inflation protection, lower volatility, more predictable cash flows, and strong yield potential. Mr. Sabol summarized that infrastructure, including natural resources, accounts for about 82% of the aggregated portfolio, with larger maximum limits for investment exposures in high-opportunity market subcategories. He emphasized the importance of diversification within infrastructure. Historically, the SIC has shown a home country bias, with 78% exposure to the Americas. Recent allocations aim to improve geographic diversification. Regarding the proposed benchmark change, the current benchmark of CPI plus 300 basis points is suggested to be moved to CPI plus 400 due to the removal of lower-returning debt-related assets and a slight strategic shift toward higher-returning value-add and opportunistic asset classes. Director Sabol noted that the SIC expects to deploy approximately six billion dollars over the next five years into this strategy. While the aggressive deployment pace is promising, it may lead to a buildup of uncalled capital, creating a J-curve effect on performance. Ms. Ridge addressed the expected negative performance in the early years of funds due to rapid capital deployment. To mitigate this, the SIC is exploring different account structures and co-investment opportunities. Director Sabol, Ms. Ridge and the Council reviewed the redline version of the Investment Policy Statement. Discussion continued. Councilor Bingaman made the following motion which Councilor Sommer seconded.

> **Based on the recommendations of the Council Investment Committee, advisor Mercer, and SIC Staff,** I move that the State Investment Council approve the updated Structure Study and Investment Policy Statement for Real Assets, as discussed by and memorialized for the Council at today's meeting.

The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, Councilor Sánchez and Councilor Sommer. There were no opposing votes. With seven votes in favor, the motion was approved.

d. VOTE: Private Equity: Invictus Growth Fund II, L.P. (Chris Cassidy, Mercer)

At about 2:13:00 in the meeting recording, Director Cassidy provided the Council with an overview of Invictus Growth Fund II, a lower middle-market buyout fund that invests in bootstrap businesses in cloud software, cybersecurity, and financial technology. Mr. Pugmire mentioned that Invictus would be a new relationship for the National Program. The firm is currently raising its second fund. Mercer and SIC have been exploring this initiative for some time, focusing on smaller managers to diversify the portfolio within the national program. He emphasized the impressive resources available for a firm of their size. Invictus has developed an enterprise growth platform that features a proprietary sourcing model. This model not only helps identify potential investment opportunities but also assists their portfolio companies in finding customers. Additionally, they have formed a network of experienced professionals known as the Invictus Guild, which is designed to support their portfolio companies. He said the firm structures its investments to include downside protection and is very active in various value-creation initiatives following its investments. Mr. Pugmire briefly discussed due diligence processes and fund terms. Co-founders William Nettles and John DeLoche introduced themselves and the fund to the council. Mr. DeLoche informed the council that Invictus operates as a control-oriented lower middle-market software investment firm, focusing on cloud software, cybersecurity, and fintech. He provided an overview of their three key drivers of returns: operational value, a machine learning platform, and a disciplined underwriting approach that ensures strong

downside protection while seeking embedded value at entry. Treasurer Montoya asked about their rate of return and other relationships. Discussion continued. Councilor Telles made the following motion which Councilor Sommer seconded.

> **Based on the recommendations of the Council Investment Committee, advisor Mercer, SIC Staff and general fiduciary oversight from RVK,** I move that the State Investment Council approve a commitment of up to $75 million to Invictus Growth Fund II, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions and completion of appropriate paperwork.

The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, Councilor Sánchez, and Councilor Sommer. There were no opposing votes. With seven votes in favor, the motion was approved.

e. VOTE: Private Equity – Atlas Capital Resources V, L.P. (Cassidy, Mercer)

At about 2:25:27 in the meeting recording, Director Cassidy introduced the recommendation, stating that Atlas is an access-constrained group focusing on value-oriented buyouts. This approach is timely, given the current environment in which the SIC seeks groups capable of purchasing complexity, improving a company, and then selling simplicity. Atlas targets control positions in middle-market companies facing financial or operational stress within specific industrial sectors where the firm or its operating partners have expertise. Most of the opportunities they pursue involve businesses with a historical track record of success in a specific market segment that has fallen off track for various reasons, typically due to operational or other challenges. Atlas aims to return capital quickly by addressing and mitigating these issues and enhancing the company's value shortly after closing an acquisition. Mr. Pugmire mentioned that Atlas, as a new relationship, fits within the buyout category of the national program. The firm focuses on control buyouts of industrial companies, including automotive components, construction, food processing, metal processing, packaging, power generation, paper, and building materials. He briefly explained the firm, its strategy, and its terms. From a contractual and fee perspective, Mr. Pugmire noted that it is similar to what Mercer sees with other high-quality private equity firms. Michael Sher from Atlas offered the Council a brief overview of the firm and its strategy. He explained that, strategically, when the SIC invests with Atlas, it would receive eight to twelve of their best ideas throughout the investment period. Mr. Sher discussed their approach to underwriting and investment selection, which is built on two pillars: deep sector expertise and a broad transaction toolkit. He emphasized that to generate exceptional investment returns, it is challenging to operate as a generalist. Therefore, their investment team is organized around a few industry verticals. Additionally, they remain focused on their areas of investment expertise, ensuring flexibility in expressing their investment views. To facilitate this, Atlas has developed in-house capabilities. Treasurer Montoya initiated a brief discussion regarding cost and risk. Councilor Bingaman made the following motion which Councilor Sommer seconded.

> **Based on the recommendations of the Council Investment Committee, advisor Mercer, SIC Staff and general fiduciary oversight from RVK,** I move that the State Investment Council approve a commitment of up to $125 million to Atlas Capital Resources V, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions and completion of appropriate paperwork.

The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, Councilor Sánchez, and Councilor Sommer. There were no opposing votes. With seven votes in favor, the motion was approved.

4. **GOVERNANCE MATTERS: INFORMATIONAL REPORTS REQUIRING DISCUSSION/VOTE**

   a. Governance Committee Report (Cathy Allen)

At about 2:43:47 in the meeting recording, Governance Committee Chair Catherine Allen reported that the committee over several months has researched and discussed pay bands and potential employee increases for the State Investment Council. They've gathered member feedback and are prepared to present these topics to the council for a vote. She acknowledged Treasurer Montoya for her thought-provoking questions, which have helped enhance the committee's explanations for the public and legislators. Ms. Allen expressed gratitude for the Treasurer's diligence and thanked the committee for their involvement and feedback. SIO Clark expressed gratitude to the council members for their support and engaging discussions, emphasizing that their efforts aim to benefit the people of New Mexico. He clarified that his salary band was not up for discussion in today's vote. Over the past decade, the State Investment Council's (SIC) total assets under management have tripled in size over the past decade and doubled in the last five years. However, staffing levels have remained mostly stagnant for 15 years, resulting in an urgent need for more investment, accounting and support personnel to manage the state's billions. Clark pointed out that the SIC, with only 14 investment team members managing approximately $4.1 billion, is significantly understaffed compared to other public funds. A report from Dr. Ashby Monk's Ascension team indicated that proper staffing could generate an estimated additional $300 million annually. SIO Clark informed the Council that the budget allocates $7.9 million for personnel in FY 2026, a $1.5 million increase from the current allocation of $6.4 million. He stressed the importance of attracting highly qualified staff. Councilor Sommer made the following motion which Councilor Bingaman seconded.

> **Based on the recommendations of the Council Governance Committee and the State Investment Officer,** I move that the State Investment Council approve the proposed exempt pay band adjustments and structure, relative to all SIC employees, other than the State Investment Officer, as memorialized for, and discussed by the Council at today's meeting.

The following members voted in favor: Treasurer Montoya, Secretary Propst, Councilor Telles, Councilor Allen, Councilor Bingaman, Councilor Sánchez, and Councilor Sommer. There were no opposing votes. With seven votes in favor, the motion was approved.

5. **FINANCE MATTERS: Informational Reports Requiring Discussion/Vote**

   a. CFO Report (Brent Shipp)

At about 3:04:50 in the meeting recording, Mr. Shipp, the CFO, informed the Council that he had no comments regarding this month's report.

6. **CLOSING MATTERS**

   a. **Old or new business:**

Mr. Sommer proposed that the Council schedule a review of SIO Clark's performance over the past year, which would be part of a separate discussion regarding his salary reconsideration. Councilor Allen then informed the Council that this review is next on the agenda for the Governance Committee.

   b. **Next SIC meeting date:** Tuesday, March 25, 2025, 9:00 a.m. PERA Conference Room

7. **PUBLIC COMMENT PERIOD**

8. There were no public comments this month.

ADJOURNMENT

   a. The meeting was adjourned at 1:12 p.m.